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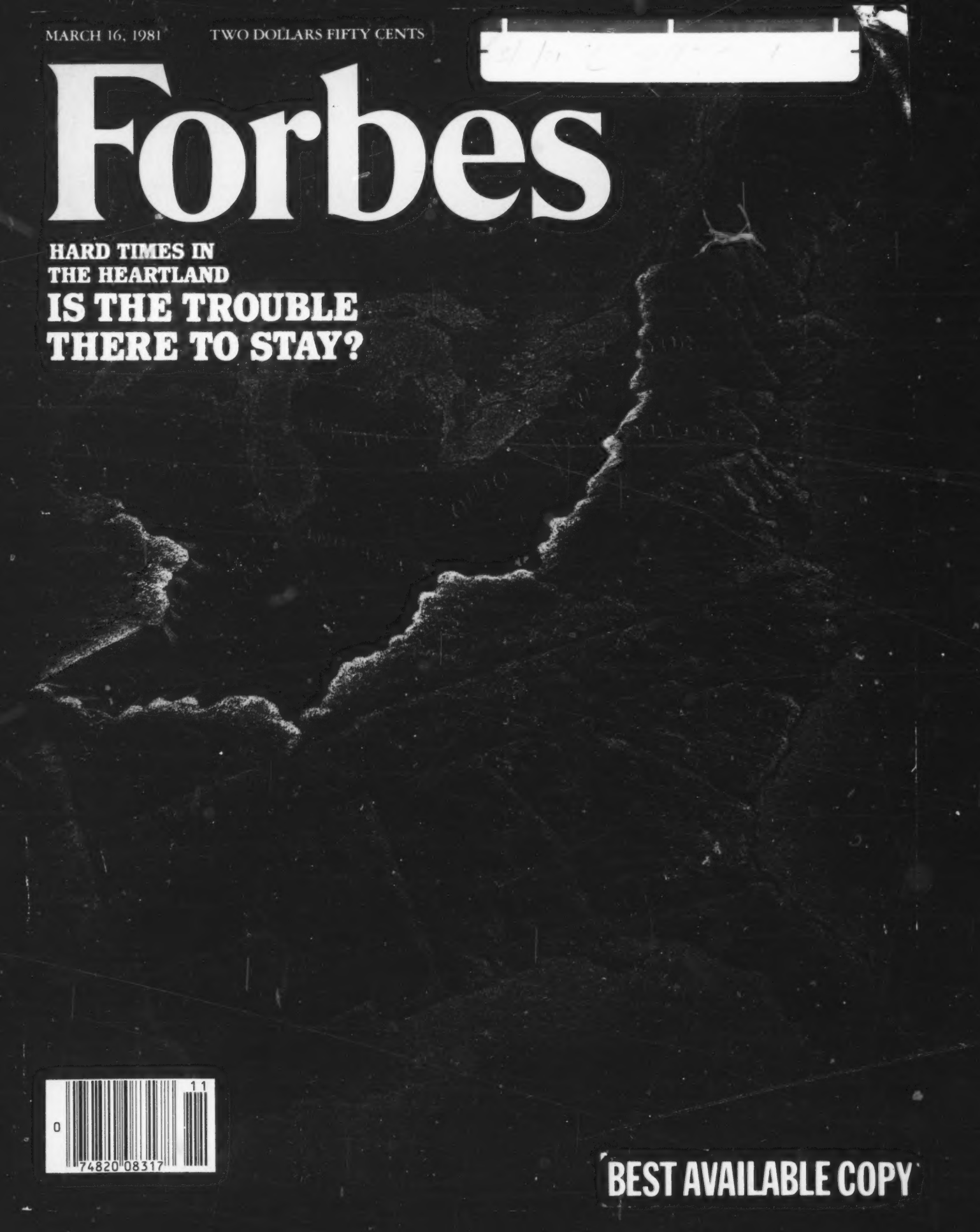
Forbes

HARD TIMES IN THE HEARTLAND
IS THE TROUBLE THERE TO STAY?



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Forbes

March 16, 1981
Volume 127, Number 6

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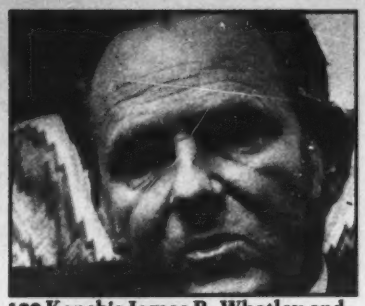

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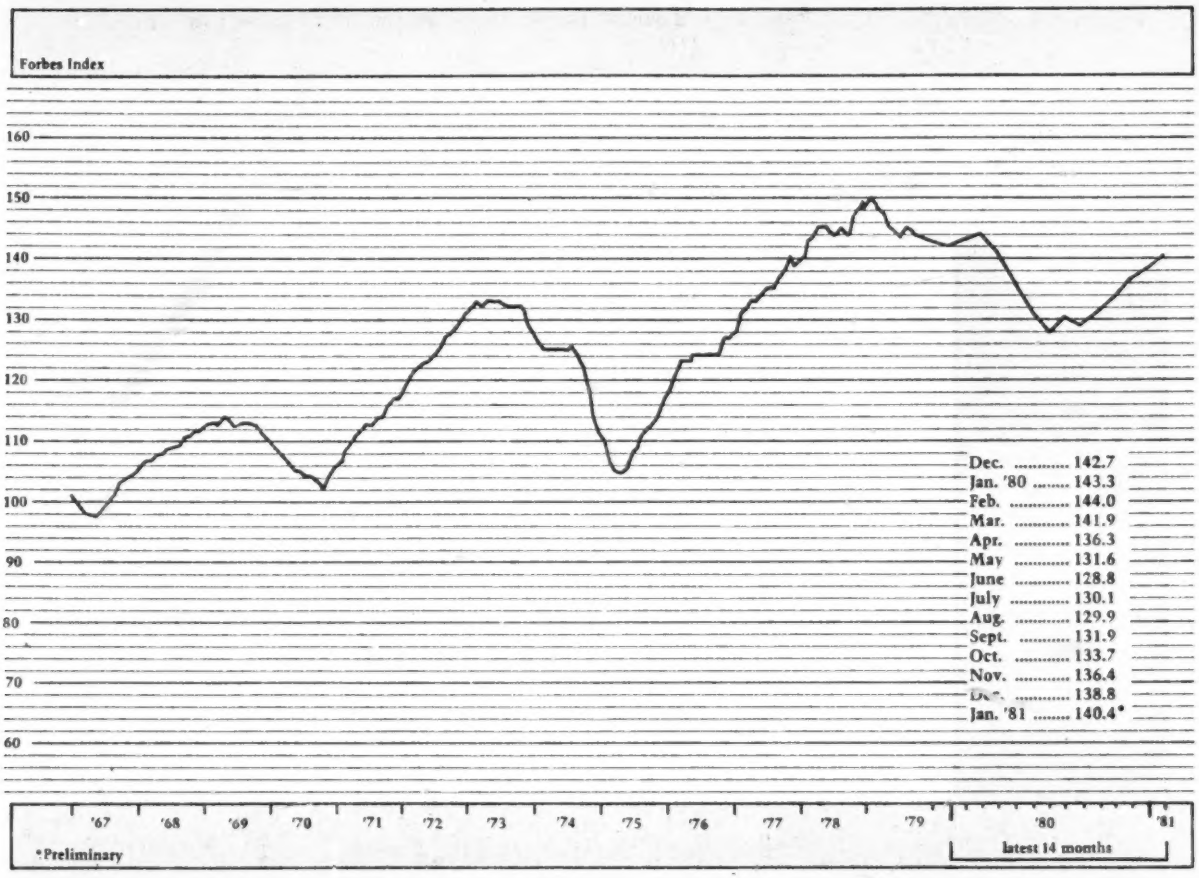
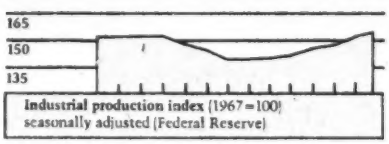
The Forbes Index

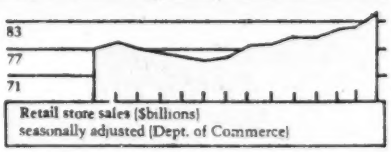


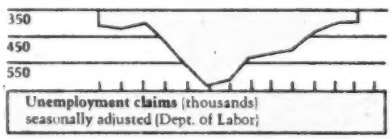
*Preliminary

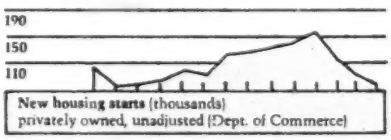
The Forbes Index Components

Good news abounds in the FORBES Index for this issue. Industrial production is almost back where it stood 12 months ago, and retail sales are surging ahead. Even the slump in housing isn't as ominous as some headlines indicate. New construction in January was off sharply from December, but current starts are nearly 10% above their sorry year-ago levels.









The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

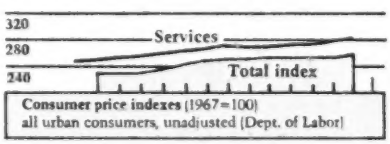
Total retail sales

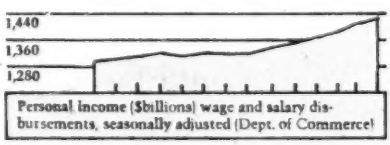
New housing starts

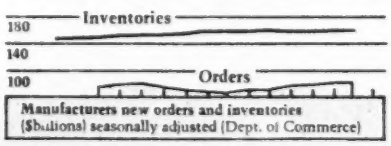
Personal income

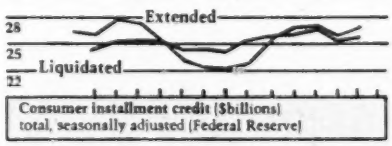
The change in the amount of consumer installment debt outstanding

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.









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Getting heat and hot water from the sun may still be a bright idea. But big government and big business are backing away.

Solar eclipse

A high-temperature solar collector at a government test site in Golden, Colo.
Clouds on the bottom line put the industry's future in question.

By Carol E. Curtis

LAST MONTH EXXON CORP., the world's biggest oil company, quietly sold Daystar, its solar collector subsidiary, to American Solar King Corp., a tiny firm in Waco, Tex. On the surface, the purchase looks like a bargain: For $2.2 million, the depreciated value of Daystar's book assets, Solar King picked up a facility capable of turning out 50,000 solar collectors a year, plus a marketing network that includes 200 dealer outlets in the Northeast. "I'm so tickled I can hardly stand it," says Brian Pardo, president of Solar King. "What was a crumb to Exxon is a cookie to us."

How tasty a cookie remains to be seen. For Exxon knew precisely what it was selling. It purchased Daystar, which makes medium-temperature solar collectors, in 1977 for an undisclosed figure, and invested $10 million to develop the business. Exxon spent that money on the assumption that revenues would double every year, reaching $100 million by the early 1980s. But Daystar has yet to turn a profit. Sales last year were just $3.5 million, producing $200,000 in losses. "In 1977 this looked like a good business to be in," says George Foster, president of Daystar since April 1979. "Since then, the outlook has changed. Exxon did not feel this was for them in the long term."

Daystar's performance is not unique. Only one of the top collector companies made money last year *(see table, p. 38)*. While some businesses are still optimistic about current sales—hoping for a boost from oil and gas deregulation and even higher utility bills—most are struggling to stay alive. Besides Exxon, Grumman and ARCO also appear to be reducing their solar activities. "Everybody made the assumption that this shakeout would occur at the low end, and that big companies would stay in the business," says Pardo. "But from top to bottom, solar collector companies are leaving the industry."

How did the bright promise of solar heating and cooling, which peaked just three years ago with passage of generous federal tax credits, fade so quickly?

Since October 1978, homeowners installing solar equipment have been eligible for a 20% federal tax credit taken directly off the taxes they pay. In 1980 the credit was increased to 40%. On the average solar installation, that adds up to about $1,200. Some states, such as California, Colorado and Wisconsin, have added their own credit, bringing the total to as much as 70% in Colorado.

Still, tax incentives have hardly been an effective selling tool. According to a survey by Arthur D. Little, 50% of the general public has never even seen a solar application. ADL estimates that two-thirds of the candidates for tax credits still aren't aware of them—even

after three years have elapsed.

Even wider knowledge of tax incentives, however, may not help the industry. That's because the biggest buyers of collectors so far have been high-income homeowners who are most likely to be aware of the tax credits. Among the less affluent, where awareness of the credit is low, it is less of a selling point. The affluent few who bought collectors after the credits passed hardly added up to the sales boom the industry had projected.

At all income levels, a big deterrent remains the long payback time. The average solar water heating system, for example, costs about $3,600. The payback time in terms of direct fuel savings (depending on local utility rates) is about five years, taking into account the cost of capital and tax benefits. On a space heating system, which goes for about $10,000, it takes eight years for the homeowner to get his investment back. Such numbers simply aren't convincing enough to sell many collectors. Comparisons are worse still for business buyers: Corporate tax credits are less generous than those available to individuals.

The dark side

Both independent companies and subsidiaries of larger corporations sell solar collectors. Among top suppliers, only one made a profit last year.

Company	1980 solar-only revenues (millions)	1980 pretax profit (loss) (millions)
Acro Energy Corp	$4.5	$ 0.9
American Solar King	2.7	(0.5)
Ametek, Inc	1.5	(1.3)
Asarco	5.0	(4.5)
Atlantic Richfield	0.8	(1.2)
Grumman	10.0	(4.9)
Olin Corp	2.5	(0.3)
Revere Copper & Brass	4.0	(3.0)
Reynolds Metals	1.7	(0.5)
Solaron Corp	2.5	(0.7)

Sources: Company data; FORBES estimates

The result, for the solar industry, has been a slower rate of growth than anyone projected. In 1980 the U.S. collector manufacturers did only $300 million worth of business—about $25 million more than a year earlier, and $50 million over 1978, the year the tax credit became effective. Adjusted for inflation, however, sales have hardly grown at all. Thus, it will take far longer than two decades to build the $20 billion industry that government solar planners had projected three years ago.

A big factor in those optimistic projections was a fat role for the federal government. Jimmy Carter gave the Department of Energy $539 million in fiscal 1980 to promote, develop—and even subsidize—solar technologies. Said a DOE official at the time, "Without a federal presence, nothing will happen."

But it is questionable how much the incentives have helped. Some Washington programs may even have hurt the industry *(see box)*. In any case, the federal role should diminish under the Reagan Administration. The President has already asked Congress to slice future solar spending from $589 million in 1982 to $224 million, a reduction of more than 60%. Most of the proposed cuts come from near-term programs to promote solar heating and cooling, and they include an end to the solar loan bank set up to provide capital for the industry.

Where does this leave businesses like Brian Pardo's? His tiny company, and others like it, are likely to loom larger on the solar scene as the corporate giants pull up stakes. Since acquiring Daystar, for example, American Solar King has become the biggest U.S. company selling solar collectors for residential hot water and heating. Though his five-year-old company has yet to post a profitable year, Pardo thinks small solar firms will now do better than ever. "Companies like Exxon and Grumman have monstrous advertising and R&D budgets," he says. "They are not designed to make profits until they reach a lot more than $8 million in sales."

Pardo says his firm will become profitable when sales hit $6 million and he produces 20,000 collectors a year—the present combined total of Daystar and American Solar King. In fact, his company posted its first small operating profit in the second quarter of fiscal 1981.

He also maintains that despite the high cost of solar equipment—and despite the likely cutback in government help—high utility bills will spark consumer interest in collectors. "People are starting to call," he says. "I don't care if the government does nothing. As the price of gas and oil goes up, we will be able to market our products."

Perhaps. But against Pardo's view of the opportunities, one must balance one solar advocate's assessment of the industry right now: "There are a lot of us who feel we are on a kamikaze plane headed toward the middle of the Pacific." Even if the truth lies somewhere in between, Exxon may take comfort that small as it was, Daystar is now someone else's problem. ■

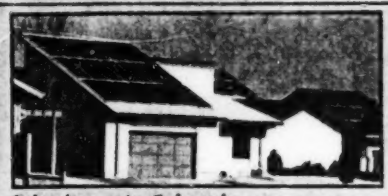
Solar perplexus at HUD

At least one of the many federal programs intended to help solar energy gave the industry a black eye instead. Under the plan, the Department of Housing & Urban Development doled out $19 million in grants to home builders who agreed to install solar heating systems free of charge in new and existing residences.

HUD found plenty of takers for its money, which was dispersed between 1976 and 1979. But there are few indications that builders and homeowners were sold on solar as a result. "Other than the giveaway, we never sold a single collector," says Murray Turner, director of sales and marketing for Perl-Mack Co., in Denver.

Perl-Mack got $216,500 from HUD to put solar heating systems on 25 new houses in Montbello, outside Denver. Interest boomed when buyers realized the $9,000 collectors were being installed for nothing. "People waited all night outside the office to buy a house with a collector," says Turner.

When the units went up, however, design and installation were major problems. Then there was maintenance. Collectors overheated and exploded, or built up acids and had to be replaced. David Moore, program manager at HUD, conceded that the agency-approved systems needed work: "For a time, problems weren't corrected as fast as we would have liked."



Solar house in Colorado

Even if the collectors had been trouble-free, Perl-Mack's Turner thinks the bottom line is what soured potential owners on putting up their own money. On a $9,000 collector, he says, it takes longer than eight years on average to get a return on the initial investment out of utility bill savings: "It doesn't pencil out."

Alvin Hill, a resident of Montbello who has had a HUD-financed solar heater for 3½ years, thinks the numbers are even worse. His collector was out of operation most of last winter. When it worked, he saved about $40 a month on utilities, paying $60 instead of $100. At that rate, leaving out the cost of money, it would take almost 20 years to earn back the investment. Says Hill, "If the government hadn't paid, I wouldn't have bought it."

HUD is no longer giving out money for solar homes. If Reagan's proposed budget cuts are approved by Congress, it will be out of the solar business altogether. As for Perl-Mack's solar sideline? Says Turner, "It's in deep storage now."—Van Wallach

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Closed stores along Joseph Campau in Hamtramck, Mich., facing the rubble that once was the Dodge plant that kept the stores in business
The new plant GM will build on the site will offset only a fraction of the area's total job losses.

The Midwest, like New England long ago, is in a long industrial decline. Neither wishful thinking nor vast, expensive federal programs can change the facts.

Trouble in the Heartland

By Jerry Flint

THEY ARE GOING TO BE THE *new* New England," says a worried Rene McPherson, head of Stanford University's graduate school of business and formerly the chief executive of Dana Corp. "It scares me. I don't want to be oversimplistic, and I'm not trying to say that all is lost, but this has the makings of a Pearl Harbor. It's much worse than most people think."

What frightens McPherson is the present economic distress in the Midwest, the nation's industrial Heartland. It's not simply the magnitude of the numbers tracking the trouble, but the fundamental nature of the forces causing it. The prospect is appalling—not one of recession lasting for months, or even years, but of hard times lasting for several decades.

Some of the fundamentals at work—the long drift of capital, jobs and people from the Heartland to what's become known as the Sunbelt—are familiar enough. On top of that came the energy crisis, putting the midwestern states with their cold winters at a further disadvantage compared with warmer states to the south and west. But compounding these woes now, so suddenly that few yet comprehend it, is the likelihood that when the Heartland's key industries recover—autos, steel and the metalworking trades that go with them—a large fraction of the jobs these industries used to provide, perhaps as many as a fourth the jobs in some cases, will have disappeared. That means that when the national slump is over, the Midwest will still be in trouble. Ironically, the pain in the Midwest is increasing as the slump in the East seems to be abating: New England's unemployment rate is running well below today's national average and even the mid-Atlantic states with less reliance on heavy industry have better prospects.

Trouble in the Heartland—the five Great Lakes states of Ohio, Indiana, Michigan, Illinois and Wisconsin plus the western reaches of Pennsylvania and New York and a hunk of Missouri as well—would be trouble enough because of the number of lives and the amount of assets affected. The Heartland, were it a nation, would be one of the most powerful on earth, a match for anything in the world outside Japan, with well over 40 million people, a gross "national" product of more than $500 billion, an industrial complex producing 70% of America's steel, two-thirds of its autos, 60% of its machine tools, plus a solid, prosperous agricultural base from corn to peaches that is to food as Saudi Arabia is to oil. Its cities—Chicago, Detroit, Pittsburgh, Buffalo, Cleveland, Muncie, Milwaukee, St. Louis—are cast in nameplates on machinery around the world.

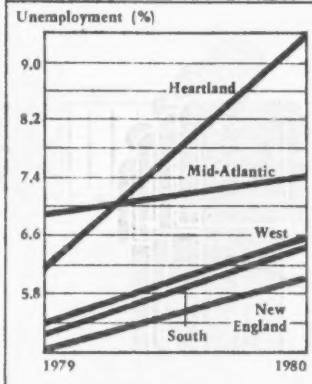
The Heartland's distress is all the more urgent because of its potential for bitter sectional strife. A national economic slump is one thing, regional recession quite another. And what's good for the nation as a whole may be painful to several of the states within it. The Reagan Administration, for example, hopes to slash $4.7 billion from the CETA and Trade Adjustment Assistance programs' funding in fiscal 1982. These two programs are designed to support faltering local economies, and midwestern congressmen and union leaders are not likely to accept these cuts without a fight. Beyond that is a greater question, now being raised, with great potential for rancorous wrangling: How far should the national government go—and how much should it spend—to save the old, to delay change, to encourage its citizens to stay when the jobs are moving elsewhere?

The auto industry's troubles, of course, have caused most of the pain. Some 200,000 workers are on indefinite layoff from major carmakers today, as many as 200,000 more from their

Jokie's in Chicago after the mill closed
Once there was even a lunch trade; now nothing.

Unemployment

Unemployment soared the past year in the Heartland while the remainder of the nation held its own. It will be a continuing problem even after the national economy makes its recovery.



suppliers. In its automotive divisions, Ford Motor's white-collar work force is down 25% in just 18 months.

Normally these workers would be recalled when production recovers. If recovery were slow in coming and those laid off had gone elsewhere, new men and women would step into these high-paying jobs, approaching $20 an hour in pay and fringes at the biggest companies. But those who have lived with the industry all their lives no longer expect normal times. "I just can't see the day when we return to the employment levels of 1979," says Douglas Fraser, president of the United Auto Workers union. Henry Ford II agrees. Even when the industry is back on its feet in the mid-1980s, he says sadly, "We're not going to need the number of people we needed before." A federal study projects the loss of 500,000 auto manufacturing jobs this coming decade. "The result could be enormous social and economic dislocation as the nation's industrial base permanently shrinks," it states.

Don't blame the auto companies. Blame yourselves. Every time you buy a Japanese car, you are voting against Detroit's sky-high wage scales and in favor of labor-saving automation. To compete with Japan's higher productivity and greater degree of automation, U.S. auto companies have no choice but to seek the same type of productivity.

General Motors has 425 robots working in its plants or on order. It expects to have 5,000 by 1985, 14,000 by 1990. Some GM executives foresee productivity gains of 50% in the next decade. That may save the industry. Indeed, it probably will. But it means the great river of auto jobs that built the region for three-fourths of a century will dry, despite recovery.

Donald Smith, director of the University of Michigan's Office of Industrial Development, after a recent survey of industry leaders, predicts that sharp increases in productivity combined with the swing to smaller cars and the increasing use of imported parts and engines will bring a 20% to 25% decline in the industry's employment. "What's happening to imported parts is almost as devastating as the loss in bodies [car imports]—$6 billion to $7 billion in parts," Smith notes. In Mexico, for example, Ford is building a $400 million engine plant, with most of the production to be exported back to the U.S. starting in the '84 model year. GM, too, is expanding parts and engine facilities south of the border. Says Smith: "I'm not an economist, but how many other jobs do you lose when this happens? How much does growth in service jobs slow?"

In steel, another Heartland industry, blue-collar employment was down to 285,000 late last year from 403,000 a decade earlier, while labor costs had jumped to $19.36 an hour from $5.68. One day a few weeks ago, 8,000 men and women jammed into the East Chicago, Ind. employment office of Inland Steel Co., breaking down part of the property fence because word was out the company was hiring 25 to 50 a week to cover turnover. Steel, too, must push up its productivity—more steel produced by fewer hands—to survive. Republic Steel, for example, just sold half its Alabama coal lands for $120 million and is likely to spend that money and more—much more—on such things as a continuous caster, which will potentially increase steel yield 12% without adding manpower.

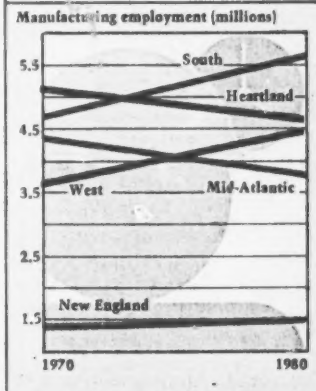
Can't those hundreds of thousands of displaced workers across eight states be retrained? "I say, what are they retraining them for?" asked Chrysler's Chairman Lee Iacocca in a conversation with Fraser of the UAW. "True story. Fraser says auto guys are going to sell McDonald's hamburgers. I say: 'You need training to sell McDonald's?' He says: 'Well, the government's going to pay for it.' "

Of course, service jobs grew everywhere, even in the Heartland. Not as many new service jobs there as in the Sunbelt, but they grew. There's a big difference, though. Representative John Seiberling (D–Ohio) of Akron, which lost 25,000 rubber-manufacturing jobs in the past quarter century, 5,000 of them last year alone, likens service jobs to taking in other people's washing: "They don't add that much to the economic base." Retail jobs pay one-third the rubber- or steelworker rates, he points out. "It's absolutely a lower standard of living, not really a substitute," Seiberling says.

It's not only the highly paid industrial workers who must adjust to the changes. As their economic bases shrink, state and local budgets will be squeezed. "I was down in Atlanta," recalled Detroit's Mayor Coleman Young the other day when he came to the capital to hear how the Reagan Administration was planning to chop aid. "They pay their policemen $14,000 to $15,000 a year. Detroit police now make $26,000. We had to lay off some very skilled, very desirable police officers. I tried to help and sent some down there. But

Production jobs

This basis of the Heartland's wealth fell 9% in the decade. Expected gains in productivity in key industries such as steel and autos would speed the decline in the coming decade.



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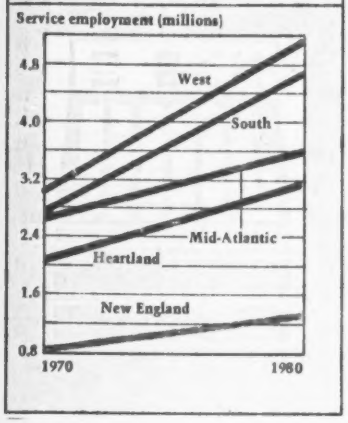
Service jobs

These rose in the Heartland but not nearly as fast as elsewhere: up 49%, against 55% in the West, 70% in the South. Worse, these jobs don't pay as well as work in heavy industry.



they came back; the money wasn't enough. Houston's the same."

The service trade is hurt. Down at Jokie's bar the other week, on Chicago's South Side, steel country, it was only 8:15 at night but owner George "Jokie" Drakulich was ready to shut for the night. A 3,500-employee steel company had closed for good last year. "If this would have happened when I first got into the business, I would have quit long ago. But I'll be 62 in March, and I'm waiting for a pension," says Jokie. "I used to do a lunch trade business but now there's nothing. Guys used to stop by after their shifts for a few drinks. Now they're staying home and watching TV," he says as the few customers get ready to push off.

"I used to stay open until midnight, now I usually close at nine. I get frightened staying open so late with so few people in here," says Maria Poloza, who with her husband John owns the Golden Shell Restaurant and Bar on the South Side. There's still business, but it's not the same. "My staff was 35 people, now it's 30."

"Chicago, New York, Cleveland, those used to be the places to go to work. Now they've gone to hell with the dogs," says John Medina of Chicago. He's still working at an auto plant, but two brothers lost steelmaking jobs. "Now you got to go to Houston, Atlanta for jobs," he says. But his brothers don't want to leave the Windy City and their family. Says Medina: "It's darker and darker."

Farsighted political leaders understand the change coming. "No doubt the Midwest has a long period of contraction ahead," says Doug DeGood, the mayor of Toledo, an industrial center between Cleveland and Detroit, "but if cities like Toledo diversify in the next ten years away from dependence on the manufacturing base, we can buck the trend. The public and the private leadership know it has to be done." The only trouble, he admits, is that they don't know how to do it yet.

It's difficult not to be pessimistic about the Midwest. "It's like the old joke—what to do in a nuclear attack," says Amitai Etzioni, director of the Center for Policy Research in Washington but better known as the father of *reindustrialization*. "Put on a white sheet, then walk slowly to the cemetery and bury yourself. Why slowly? To avoid panic."

"Give us a shot," pleads Mayor DeGood. "We evolved into what we are since the Civil War and the Industrial Revolution. We aren't going to turn that around in 24 months."

Among the nastiest imponderables in the Heartland's future is the impact of further energy price boosts. It's not that energy-importing states won't get their fair share of oil or gas or coal; it's that the price they will have to pay could impoverish them. In 1979 the Treasury Department had predicted that oil would produce state revenues of $120 billion this decade, with most flowing to Texas, Alaska, Louisiana and California. That estimate, based on $30-a-barrel oil and assuming further price increases of 2% annually, seems hopelessly out of date.

Such numbers have grave implications, not only for the Midwest. "Half the country is nearly bankrupt, many of its major cities are pools of unemployment and unrest, and the other half swimming in oil, industry and wealth," wrote Felix Rohatyn, the Lazard Frères partner who masterminded the restructuring of New York City's finances. Rohatyn has been writing thoughtfully for such publications as the *New York Review of Books* on the dangerous stresses this decline of older industrial cities could place on the very fabric—social, political—that binds our nation. "Not even a country as large as ours," he wrote last month, "can maintain its democratic institutions half rich and half poor, especially when economic trends will make it very apparent that for the 'have-nots' things will get worse and not better."

The Heartland has substantial coal—15% of the nation's production. But the increasing use of western coal, and western severance taxes, are seen as another revenue-draining threat. "If the current tax rates do not change, the states of Minnesota, Iowa, Illinois, Indiana, Wisconsin, Michigan, Ohio and New York alone will pay $240.4 million in coal severance taxes each year to Montana and Wyoming by 1987," say area utilities and coal companies.

"When we came to expanding our manufacturing capacity we chose to expand outside Ohio," says Stuart Northrup, chairman of Huffy Corp., the big Miamisburg, Ohio bicycle maker. "We went southwest to Oklahoma. Many companies will." His new Sunbelt plant is small, 250 workers now, but it could expand to 600 or 1,000. "Building the plant there might have cost a little less, but that's not really a great factor," he says. For Huffy, the certainty of good supplies of natural gas for heat-treating was a major consideration.

Remember, the energy and industrial troubles come on top of the older, long-term trend of slowing growth.

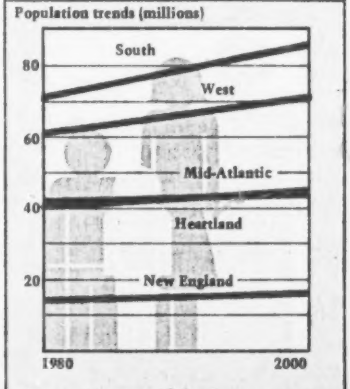
Take population: In the past decade it grew just 3.5% while the South and West were up 20%. Over the next 20 years census projections put the Heartland population growth at 7%, while the South and West is expected to grow 25%. But these estimates were made before the effects were clear of the dramatic changes that are now taking place.

Take jobs: The Heartland states lost 361,000 manufacturing jobs in the past ten years.

Take the federal dollars and where they go: In the 1975-79 years, it's calculated that the Heartland had a negative "balance of payments" with the national government of $110 billion, while the South

Population

People will continue to leave the Heartland. They should be encouraged to move, say some. Welfare and layoff cuts, as Reagan plans, could speed the shift beyond projections.



Source: Bureau of the Census

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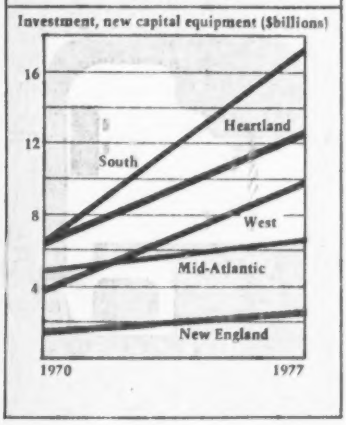
New equipment

Continued strong spending in the Heartland is going to reflect efforts by the auto and steel industries to get more competitive. But the aim will be productivity, not job growth.



and West took in better than $100 billion more than they sent to Washington. The Northeast-Midwest congressional coalition complains that the new Reagan budget would worsen the situation, cutting social welfare programs in high-unemployment areas, while the energy-rich can not only afford the cuts but make them up with taxes on energy exports as well.

"The proposed cuts, in effect, leave declining regions to their own fate, a policy that in the long run will spell economic disaster for the entire country. For every region will suffer if one region is allowed to go under," the coalition complains.

The Midwest isn't going to become a desert. Some businesses and localities, even a good many, will prosper during the worst of change. "Nothing remains the same, and that isn't particularly bad," says William Hewitt, chairman of Deere & Co. "The manufacture of heavy products is likely to remain here. Our products are heavy. Caterpillar's, International Harvester's, others' too. We can't move them to the Sunbelt. The same applies to steel." He speaks proudly of Deere's farm implement plants in Iowa and Illinois. "The work ethic is still alive there." Talk of long-term stagnation for the region, he says, "may sound plausible, but it's not necessarily going to turn out that way."

"This isn't all bad. You don't always have to grow," says Henry Ford comfortingly. "But the transition will be difficult. It is always difficult."

"Survival of the fittest," agrees Enrie Nagy, president of Riblet Products Corp. in Elkhart, Ind. "Everyone isn't going to hell." His company makes mobile-home underpinnings. He sees signs of change in that elusive but essential thing called the business climate. "The workers are okay, people know they can't screw off anymore," he says. In a Pennsylvania plant, he says, the union "got a fourth of what it really wanted," but that kept the plant going.

Some also predict that the wage and social problems that bedeviled the Heartland will take hold in the Sunbelt, too, slowing its growth and keeping jobs up north. Others are convinced water will make the difference. "They've got water problems in the Southwest, and water is as important as oil," says Mayor Richard Hatcher of Gary, Ind. "Water," says Theodore Mecke, president of Detroit's Economic Club, "we've got it and the rest of those buggers don't."

"With prosperity comes the price tag, the union," says Mayor Coleman Young of Detroit. "They'll be paying the same kinds of bills as the frostbelt one day, and when it's evened out it will be very, very difficult to pit a group of workers in Detroit against workers in Savannah."

The gap between labor costs prevailing in the Midwest and those in the less heavily unionized South and West is still sizable—the Bureau of Labor Statistics reports that the manufacturing wage rate in Illinois is $8.53 an hour, 14% higher than the $7.48 an hour prevailing in Texas—and it will not quickly disappear. Exploitation? Not at all. Living costs are generally lower in the Sunbelt, too. It is, after all, high labor rates that helped price U.S. automobiles and steel out of the market, although union leaders will argue that high productivity and high industry profits justified the pay.

Labor itself is coming to understand the problem, but how do you ask your members, already squeezed by inflation and accustomed to living well, to take pay cuts? "There is a hell of a difference," the UAW's Fraser reminds, "between cutting pay and taking reductions [in the size of gains]." But organized labor's willingness to narrow that gap somewhat is apparent. Says Fraser: "We have to face up to economic reality."

Fraser doesn't even get upset at the thought of GM or Ford coming in and asking to renegotiate his contract. He admits he would rather do it at the end of an old contract than in the middle of one. "They have to persuade us that they have a compelling case, and a reason to do it before the contract expires."

GM will seek to do just that later this year. Asking isn't getting, of course, but, says a GM executive, "We would have never even asked before."

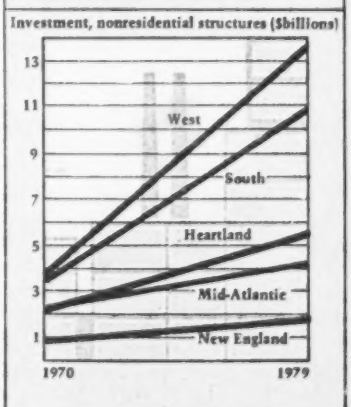
There's even talk, and some action, about dealing with the complaints about business taxes. Michigan, for example, recently removed the voluntary quit as a justification for receiving unemployment compensation, and that state tightened up its workmen's compensation rules.

How effective some of these changes will be in holding down costs is another question. The political tradeoff is usually—and was in this case—higher payment rates, which raise costs immediately. "The savings will not be immediate; they will depend on detailed litigation through the claims process, and we can't tell how tough it will be," says a chamber of commerce official. "The political talk is upbeat, but lots of things haven't changed, and platitudes about the business climate aren't going to change them."

In the effort to alter the Midwest's economic future, powerful pressures are building to get the federal government into the act. "I raised this in the White House the other day," said Fraser of the UAW. "If we design [business] tax programs across the board, we invite companies to pick up and leave the snowbelt for the Sunbelt. But if we condition tax changes, they can be encouraged to remain." But after Reagan detailed his business tax cuts without any tilt against the Sunbelt, the AFL-CIO

New building

Dollars for new plant poured into the South and West in the last decade. Heartland leaders fear Reagan's depreciation reform will make it easier for industry to relocate elsewhere.



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complained it could encourage industrial migration from areas of already high unemployment.

Sunbelt leaders, of course, may not like that. "The trouble is, we need to get more than our share," says William Hackett Jr., director of Mississippi's Economic Development Board. The magnolia state ranked seventh in the nation in net jobs gained the past decade, and brags about 385 new or expanded businesses last year adding 11,000 jobs and $970 million in investment capital. Even with continued gains, which are expected, the state's per capita personal income, lowest in the country now at $6,643, will be only 81% of the national average in the year 2000, the Commerce Department estimates.

Mississippi, like the Heartland, wants high-tech jobs. "We're not going to turn Mississippi into Silicon Valley over the next five years, but we're moving away from the low-wage, highly labor-intensive factors of the past 20 years toward higher-paying, high-technology jobs," says Dick Molpus, one of the governor's aides.

Thoughtful Heartland businessmen are becoming aware of their responsibilities to their region. Giant GM, for example, plans to build a new car assembly plant that would employ 5,000 to 6,000 on the site of Chrysler's old Dodge plant in Hamtramck, Mich. GM will be getting much help through the workings of the Urban Development grant program. Under it, Michigan's Republican Governor, William Milliken, came back from Washington with Reagan's pledge of $30 million in federal dollars, despite all the budget-cutting talk, to help clear the site. But those jobs won't help the tens of thousands of Chrysler and Ford workers who are out of work now. GM will probably be able to fill the plant from its own jobless rolls. Of course, if Chrysler should go down, another 160,000 people working for Chrysler and its suppliers could be out of work.

But to build its new plant GM needs more ground space than the old multistoried Chrysler factory used. Some 1,300 residences, 16 schools, 25 churches and 150 businesses must be cleared, too. A few years ago protests would have made this impossible. Today people who might have criticized the company hail it. "In candor, I've got to give them credit for a sense of social responsibility," says Fraser of the union.

But how far should the government go? It cannot, after all, turn back the tide of history. If the past decade has taught us anything it should have taught us the clear limits on government's ability to change the world. "What we're looking at is a historical progression of a transition that started in New England and spread into the mid-Atlantic," says Tom Cochran, executive director of the Northeast-Midwest Institute. "New England, after two generations of pain, is emerging. The mid-Atlantic states are right in the middle of transition." Now, Cochran says, it's the Midwest that is taking the heaviest shocks. "This is a very structural recession, permanent change from a heavily industrial area into something more diverse. I'm not sure public policy is decisive or that state level action can affect such change, but it can affect the depth of pain at the margins."

"Pain at the margin" is extraordinarily difficult to address wisely. If job opportunities don't grow fast enough, people will ultimately have to move on, Pierre de Visé, professor of urban sciences at the University of Illinois (Chicago), points out. Aid that lowers the incentive of people to move for work ultimately becomes insupportable. "It's necessary," de Visé says, "to have a fine balance between the welfare function and the

Moving on

Scott and Susan in Dallas

Scott Finlinson, 23, made the trek from the Midwest to Dallas a year ago. "When I was 19, I had my own business and I was making $21,000 a year," he recalls. "I'm not making that now, but I wouldn't go back."

Says his wife, Susan, "I miss my family a lot but that's all I miss."

In the last decade 1.5 million midwesterners—net—moved from the five-state Heartland. The southern and western states had a net immigration of 7.4 million. Those trends seem likely to continue in the next decade, eroding the Heartland's economic and political strength.

Why do they go? The reasons are not always, or only, economic. Scott Finlinson just wanted to leave Royal Oak, Mich., an old suburb bordering Detroit—leave the snow, leave that life. "I ran my own company, carpentry. I had three or four people working for me at any given time. I did real good work but I was always afraid my customers were going to sue me. Any problem and they wouldn't pay."

He and his folks picked up a bar, Dale and Sally's Dog House, outside Chrysler's old Hamtramck car plant. By then word was out that the plant was closing, so they got the place cheap. "We thought someone would come in and use that property," he explains. No one came. Without the car plant, the neighborhood collapsed. With GM planning to build a new plant on the site, the Dog House may prosper yet, but it will be too late for the Finlinsons. The bar is up for sale. Scott helped move his folks down to Dallas. Dale got a truck-driving job. Sally is teaching real estate, which she had done before that business collapsed in depressed Detroit. They got those jobs in Dallas only days after arriving.

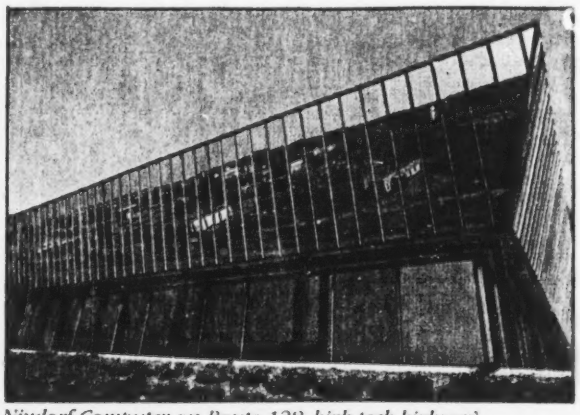
Scott didn't intend to move to Dallas. He and Sue left Royal Oak after Christmas in 1979, looked around Florida, didn't care for it. "All we could do was head west," he says, "because you can't go east from there." They found Baton Rouge too "hicky," Houston too big. The next stop was Dallas. "That," says Sue, "is where we ran out of money."

Scott drove a truck for a few months to get on his feet, then found a carpentry job with a major realty firm paying $19,500. Sue is the secretary (at $13,000) for seven Japanese executives at American Yazaki Corp., which sells solar air-conditioning. They have a pleasant one-bedroom apartment, a pickup truck and a sports car. "I have full medical coverage, 20% off my rent [they live in his employer's project], 2-for-1 drinks at the company bar, and it was 70 degrees the third day of January."

"The night life's good," says Susan—the bars, the race-it-yourself auto track, the apartment pools, the hot tubs.

After a year in Texas they still aren't over the difference in attitudes between the regions. "When I worked up there, you didn't have to be polite to customers. It seemed like a waste of time," Sue says. "Here people say 'Hi' to you, they wave from cars," Scott says. Sometimes, they find it a little much. "You can't get away from people," Sue says. Then again, they don't know many real Texans. "Most of the people we know here," she says, "are from New York or Chicago or the Northeast."—J.F.

Back from the dead



Nixdorf Computer on Route 128, high-tech highway

Unemployment in the six-state New England region was only 6.0% last year, *vs.* an average 7.2% in the other 44 states—strong evidence that after more than a half-century snooze, New England is waking up.

The comparative strength owes nothing to textiles, watchmaking or whaling. "Since the early 1960s the economy has been diversifying itself from traditional industry," says Christine Knowles, director of economic development at the New England Regional Commission. Lynn Browne, an economist with the Federal Reserve Bank of Boston, says, "The basic [economic] conditions look encouraging. Our high-technology industries are growing rapidly." Browne is not only talking about the companies along famed Route 128 outside Boston. The high-tech rub-off is felt in southern New Hampshire, Rhode Island and southern Maine as well.

The region's place in the national economy, however, remains modest compared to its past. New England had the nation's first large industry. Shipowners and traders looking for a way to invest their profits found it in textiles, shoes and paper. The immigrants and local women provided the toil and cheap labor. Eli Whitney and other ingenious inventors designed new machinery. The region's streams provided power.

The land of Thoreau and Emerson, however, was also one of the first to show industrial decline. The lumber industry folded. Other ports with better rail connections to the West took the trade. The Immigration Act of 1924 cut the flow of low-pay workers. After World War I the South offered deeper pools of low-wage earners. In the 1930s inexpensive southern power was another competitive factor.

More shocks followed after World War II. Textile jobs fell from 280,000 in 1947 to 99,000 in 1964. The jobless rate skyrocketed in the mill towns: 12% in Lowell and Fall River, 18% in New Bedford, 26% in Lawrence.

"In the early 1970s things were pretty grim," says economist Browne. "The recession came too rapidly." Cutbacks in aerospace and defense contracts didn't help.

Now, the worst seems over. There has been a slow but more or less steady pickup since 1975. Schools like Harvard and MIT have indirectly spurred growth. As for the future? Says John Hekman, an economist at Boston College, "A lot of people get worried because they think New England will get tied to some industry, as we did before with textiles. But products turn over rapidly. Our biggest resource is skilled labor."—**Desiree French**

disruption of the marketplace in which some people don't move."

That issue was faced by a Presidential commission, which noted the decline in incentives to move and complained: "When the federal government steps in to try to alter these dynamics, it generates a flood of demands that may sap the initiative of urban governments to act on their own." Billions of dollars have been spent trying to revitalize the old cities without much luck, said the report. "Thus, as the major long-term goal of federal urban policy, the Commission urges government to place greater emphasis on retraining and relocation assistance efforts designed to link people with economic opportunity, wherever that opportunity might be.

"In short, much greater attention should be given to developing strategies that allow people to adjust to shifts in the location of economic opportunity. Assisting people to follow jobs, rather than concentrating solely on attempting to steer jobs to where people are, is a major goal in any adjustment strategy."

There was a mighty fuss, and a clear case in point, in the U.K. last month over the closing of the big Linwood automobile plant near Glasgow. Its present owner, the French firm Peugeot, said there was no way it could be persuaded to keep the plant open, subsidies be damned. The plant had been a jinx. Its builder, Rootes Motors, went broke; Chrysler bought the plant, lost a bundle and sold it to Peugeot; the latter, tired of red ink, is shutting it down.

The lesson of Linwood is unmistakable. The building of this plant was not a business decision; it was built with heavy government subsidies in a misguided effort to help revive a declining industrial area. At great cost to the taxpayer, Linwood provided temporary work for a lot of people but nearly broke three owners and contributed to the decline of the British auto industry. In the end the jobs will go, too.

Predicting that America's industrial Heartland is in for a generation of economic slowdown isn't pleasant, but ignoring facts won't help matters. The Midwest does not need Linwoods—plants built with government subsidies but which serve no economic purpose. Such projects are a cruel hoax on taxpayers and ultimately on the workers. Listen to Daniel Garnick, the top regional economics expert at the government's Bureau of Economic Analysis: "Millions are coming on stream in the Third World, literate people who can produce textiles and steel and cars," he says. The productivity gains and industries that will grow, not shrink, must be found quickly. "We can't try to subsidize what doesn't work."

Faster depreciation writeoffs on new plant and equipment, as proposed by the new Administration, would be a powerful incentive to build new plants, but as union leader Fraser warns, that means an incentive to put the new facilities outside the Heartland states. Cuts in layoff pay through the trade assistance dole and unemployment will surely cause more pain at the margin. Cutbacks in the growth of food stamp money and other welfare benefits will squeeze not only the programs' beneficiaries, but eventually curb the big job-producing bureaucracies tied to the welfare system. The spending jump in defense, of course, will transfer more Heartland wealth to the major defense contracting states in the Sunbelt.

All these will be a kick to the Heartland, just when it's down. Then again, it may be the kick to help people in the Heartland—and their fellow citizens elsewhere—realize just how much trouble they've got. ■

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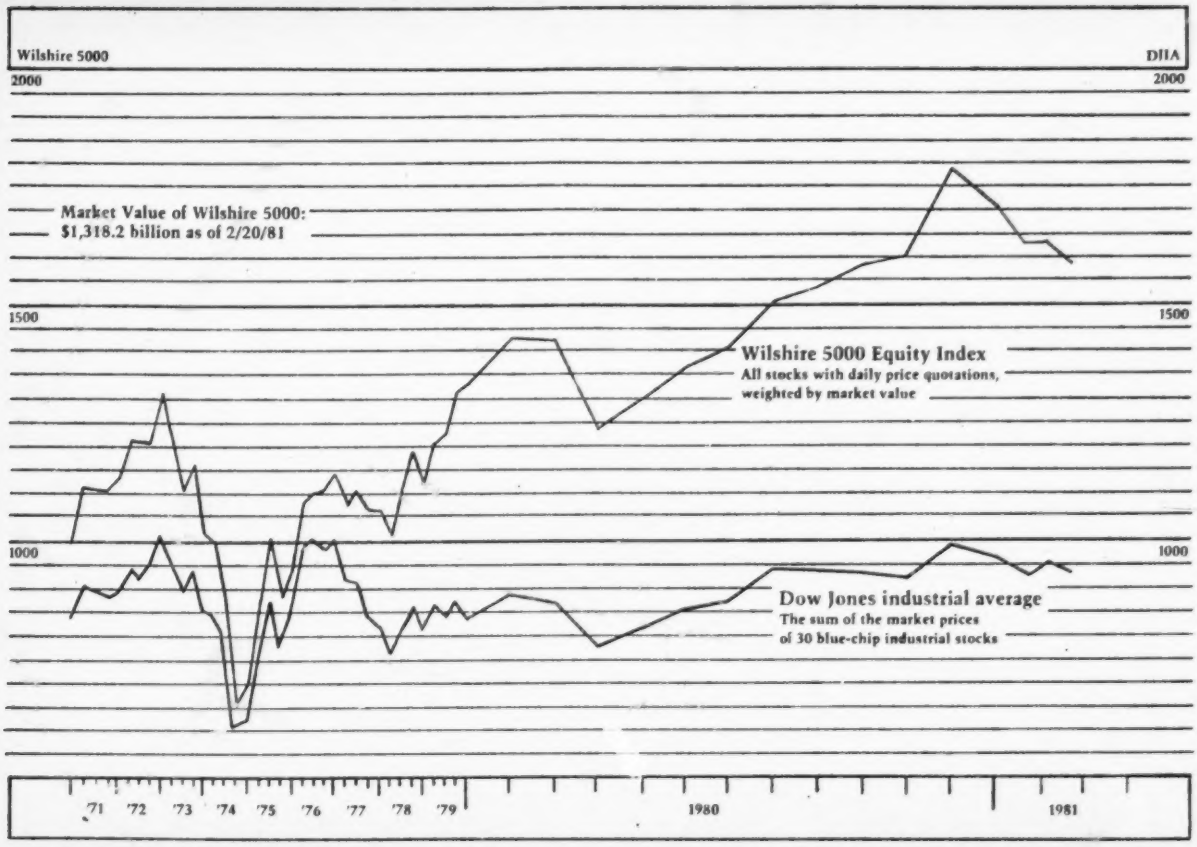
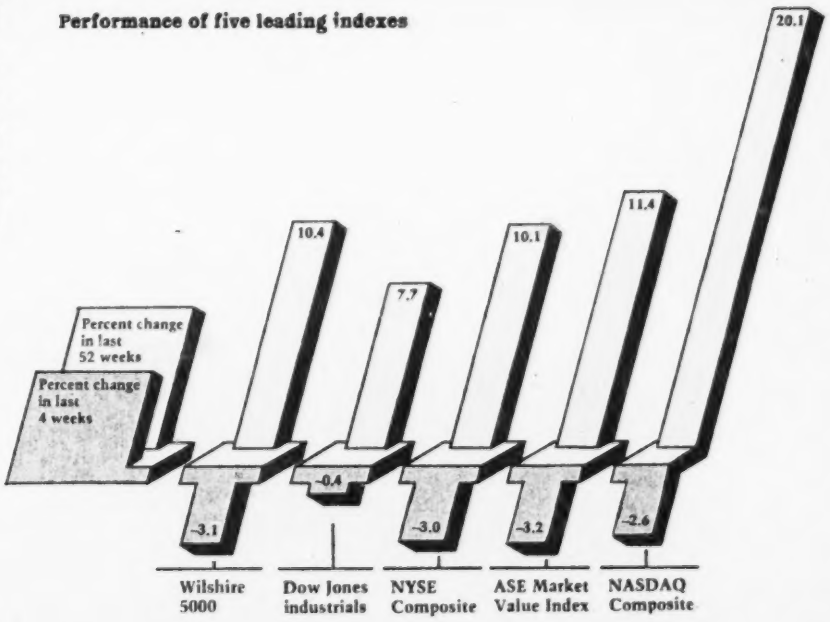
The Forbes/Wilshire 5000 Review



Close-up On The Equity Markets

Down, down, down. That's where each market index is heading—and the Wilshire Index, of course, is no exception. In the current reporting period, however, the Dow was surprisingly strong. And the NASDAQ Composite, which has been the best of a bad lot for much of 1981, seems finally to be in a full-fledged decline. Now, if the Dow starts posting real gains, it could herald a back-to-the-basics market rally.

Performance of five leading indexes



Note: All data for periods ending 2/20/81. Prepared by Wilshire Associates, Santa Monica, Calif.

The continuing stock buildup has led to a dramatic price decline—one-third of the 1977 level—the lowest since mid-1976.

AFLOAT IN COCOA

By Stanley W. Angrist

FREQUENTLY I have recommended purchasing a commodity when no one else wanted it, or selling when everyone else couldn't get enough of it. This trading strategy is not without its risks and, of course, must be implemented only in conjunction with unmovable stop-loss orders. Such a strategy has caused me to take a look at cocoa.

We now appear to be in the fourth year of a production surplus, as the fifth major postwar bear cycle continues. Shearson Loeb Rhoades, Inc. estimates this year's output at 1.6 million metric tons, which is only slightly below the world record 1979-80 crop. The estimate for this year's crop—as well as the recent annual production and consumption figures for the five major producers—is shown in the table below.

The continuing stock buildup has led to a dramatic price decline to the lowest levels since mid-1976. As recently as 1977 the New York cocoa contract sold for as high as $5,700 per metric ton ($2.40 per pound). Now prices have sunk below $1,900 per metric ton (86 cents per pound).

It is not easy to imitate OPEC, especially if the commodity involved is not an absolute necessity, but the majority of the cocoa producers have certainly tried. It is especially difficult if the leading consuming nation (the U.S.) and the leading producing nation (the Ivory Coast) refuse to sign the International Cocoa Agreement. The agreement, which becomes effective in April, is supposed to go into effect when the five-day moving average of New York and London futures drops below $1.10 per pound ($2,425 per metric ton). At that time, the manager of the buffer stock would start to buy. If the price rises to $1.50 per pound ($3,305 per ton) the manager would start to sell. Intervention prices are to be adjusted up or down depending upon the quantities of cocoa bought or sold in any one year.

However, without the U.S. and the Ivory Coast participating, the agreement is likely to be a chocolate tiger. The intervention price that the agreement is to defend is substantially higher than the world market price and would tend to inhibit consumption, thus doing more harm than good in the long run. Moreover, given the fact that the buffer fund has only $230 million, the manager could only purchase 95,000 tons at $2,425 per ton, which is only 21% of the Oct. 1, 1980 carryover.

Despite falling prices, grindings and imports have declined, and these trends are expected to continue. Also retarding consumption is the trend away from chocolates toward more health-related snack foods. Per-capita consumption in the U.S. has dropped by 25% since 1972. Consumption in the U.K. has also fallen every year since 1976.

Beginning with the crop year ended in 1978, carryover stocks have increased every year; indeed Shearson estimates ending stocks this year at 552,000 metric tons (USDA estimate, 580,000 metric tons). The ending stocks in 1977 were 158,000 metric tons, giving rise to a 249% increase in stocks in just four years.

Even with all this bearish news I can still see room for a modest long position. I believe that at some point chocolate producers will attempt to pass on the effects of these lower cocoa prices, which will act as a spur to consumption. And even in hard economic times lots of folks will indulge themselves with a chocolate bar, even if they can't indulge themselves with a steak.

Traders who can withstand the obvious risk might try a long position in the May contract at under $2,000 per ton. I would risk no more than $100 per ton from my entry point per contract, for a risk of $1,000. I would shoot for a $200-per-ton profit ($2,000 per contract). The margin on such a position would be about $2,000, while the round-turn commission would be about $80.

Another way of trading cocoa would be a spread of long May/short July, with the July at least at a $75-per-ton premium. Full carrying charges should be about $100 per ton. I would look for the spread to narrow by at least $50 per ton ($500 per spread). And I would risk no more than $25 per ton ($250 per spread). The margin on this trade would be about $1,000, with a round-turn commission of $100 or so. ■

Stanley W. Angrist is a professor at Carnegie-Mellon University and the author of Sensible Speculating in Commodities.

Let them eat chocolate

Worldwide cocoa production has been robust in recent years, including the estimated production for the 1980-81 crop year. Alas, consumption has failed to keep up with production.

Cocoa producers	1976–77	1977–78	1978–79	1979–80	1980–81 USDA est	1980–81 Shearson est
Brazil	234	283	314	294	325	330
Ivory Coast	230	304	312	355	360	340
Ghana	320	268	250	295	280	275
Cameroons	82	108	106	123	120	115
Nigeria	165	205	137	170	160	175
Five leading producers	1,031	1,168	1,119	1,237	1,245	1,235
Others	309	335	362	374	388	365
Total production	1,340	1,503	1,481	1,611	1,633	1,600
Consumption	1,361	1,387	1,426	1,451	1,480	1,475

Oct. 1 to Sept. 30 seasons. *Sources: Gill & Duffus, USDA and Shearson Loeb Rhoades, Inc.*

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While gasoline at the pump is bucking $1.50 a gallon, many major oil companies are selling at rock-bottom multiples.

Statistical Spotlight

Cheap oil?

By Steve Kichen

WITH MANY OIL STOCKS off 30% or more from their late fall 1980 highs, analyst Sanford L. Margoshes of Bache Halsey Stuart Shields now feels that these stocks have corrected and selective buying is in order. He is not alone. "These bloody things are cheap," says Goldman, Sachs oil analyst Todd L. Bergman. As we point out elsewhere *(p. 172)*, in a few months the energy stocks have given up nearly all their 1980 gains.

While a down first quarter is expected for oils, estimates now generally predict higher earnings in 1981. Even though the windfall profits tax will mean that about 80% of the additional income resulting from decontrol will end up in the hands of federal and state governments, decontrol will still mean as much as $2 billion in additional profits for the industry. That means Gulf is selling at a multiple of just 4.5 times projected 1981 earnings, Mobil at 4.9 and Exxon at 5.1.

Laurence E. Tween, oil analyst at Kidder, Peabody, is cautious about earnings projections, particularly for the domestic companies. He notes that some lower numbers have started to trickle in. "Until recently we have looked upon domestic oil stocks as good inflation hedges," he says. "But with expectations that Reagan will get a firm handle on inflation, Kidder deemphasized oils."

But the recent record shows that periods of oil oversupply don't tend to last very long. After all, economic recovery, OPEC cutbacks, political instability or international conflicts all can cause an almost immediate tightening up of supplies and upward pressure on prices. Tween: "Looking down the road over two or three years the outlook for the oil industry is quite favorable." He expects a better political climate, stepped up domestic drilling and exploration and higher oil prices that will make enhanced recovery methods economically viable.

How much lower can many of these companies go—especially those with good prospects for increased production in the U.S.? Unless you think OPEC is going to collapse, can anyone believe the oils are in serious trouble? Thus it's hard to understand why oil stocks are available at 3 to 6 times earnings at a time when the market as a whole commands about 8 times earnings.

Black gold?

The present price/earnings multiples of most major oil companies are low relative to historical levels and to the market as a whole. If 1981 earnings forecasts are correct, multiples could fall lower in a lackluster market.

Company[1]	Recent price	Latest 12-month earnings per share	1981 estimated earnings per share[2]	—Price/earnings ratio— latest 12 months	1981 estimated	16-week price range	% decline from recent high	Indicated yield
Amerada Hess	35	$6.44	$6.45	5.4	5.4	54¾–34⅜	–36%	3.1%
Ashland Oil	29¾	4.91	5.00	6.1	6.0	45¾–29⅜	–35	8.1
Atlantic Richfield	56¾	6.64	7.20	8.5	7.9	74⅜–56	–24	3.9
British Petroleum (ADR)	36	9.28	9.65	3.9	3.7	48 –35	–25	5.1
Cities Service	44¾	5.73	6.85	7.8	6.5	61¼–40¾	–27	3.6
Coastal Corp	30¾	4.12	5.35	7.5	5.7	52½–30¾	–41	1.3
Conoco	60	9.52	10.00	6.3	6.0	73 –56⅞	–18	4.3
Exxon	71	13.01	13.90	5.5	5.1	88¾–71	–20	8.5
Getty Oil	75¼	10.60	12.25	7.1	6.1	108¼–72½	–30	2.7
Gulf Oil	37⅞	7.21	8.50	5.3	4.5	52¾–37½	–28	6.6
Marathon Oil	58	6.27	8.75	9.3	6.6	82½–57	–30	3.4
Mobil	69⅜	13.27	14.30	5.2	4.9	88½–69⅛	–22	5.8
Murphy Oil	37¾	4.03	4.90	9.4	7.7	64 –36⅜	–41	2.0
Natomas	29⅛	4.02	4.75	7.2	6.1	45¾–28½	–36	4.1
Occidental Petroleum	29½	8.82	7.50	3.3	3.9	39⅛–29⅜	–25	7.5
Pennzoil	40½	5.90	6.50	6.9	6.2	62½–38⅝	–35	5.4
Phillips Petroleum	46¼	7.01	7.75	6.7	6.0	62⅞–46	–26	4.7
Royal Dutch Petroleum	87¼	28.32	27.00	3.1	3.2	112¼–84	–22	7.4
Shell Oil	45⅜	4.99	5.85	9.1	7.8	65½–45¼	–31	3.5
Standard Oil of Calif	45⅝	7.02	7.65	6.5	6.0	58¾–42¼	–22	4.4
Standard Oil (Ind)	65½	6.54	7.70	10.0	8.5	99½–64¾	–34	4.0
Standard Oil (Ohio)	56	7.37	8.70	7.6	6.4	91½–55⅝	–39	3.2
Sun	41⅛	5.92	7.85	6.9	5.2	59⅝–37¼	–31	4.4
Texaco	39	8.31	8.80	4.7	4.4	54⅜–38¼	–28	6.7
Union Oil of Calif	38⅛	3.73	4.40	10.2	8.7	56½–36½	–33	2.1

[1]All companies are listed on the New York Stock Exchange. [2]Source: Standard & Poor's *The Earnings Forecaster.*

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Believe it or not, some companies don't care about sharp prime rate fluctuations. Why? They happen to be long-term debt-free.

Statistical Spotlight

The self-financers

By Steve Kichen

With the prime rate currently at a prohibitive 19% and the future levels of rates never more uncertain, debt-free companies with good earnings growth records are looking particularly attractive. As essentially self-financing companies, they are not prone to the rapid earnings declines that often afflict highly leveraged firms. Self-financers are not burdened by high interest rate payments if there's an economic downturn.

The 76 companies on the list below represent the cream of the crop of self-financers. Not only are they all free of long-term debt, but they all have averaged at least a 15% return on equity for the latest 5 years and the latest 12 months. As the average 12-month return on equity for the 1,041 companies surveyed in the most recent FORBES Annual Report on American Industry is 16.1%, most of the companies below are better than average. Many, such as American Welding & Manufacturing, with a 32.7% return on equity for the last 12 months, show outstanding performance.

The old adage that small, growing companies are perennially cash-starved and unable to finance their future is challenged by our list. Take Astrosystems and Comserv, two companies involved in the data-processing field. Both have a sales base of less than $10 million and both show very high returns on equity for the latest 12 months.

In fact, while several big corporations made our debt-free list—Dun & Bradstreet, suppliers of business information and financial publisher; Roadway Express, a trucking company; and Schering-Plough, an ethical drug manufacturer—most are small, growth companies. Several sell at comparatively low earnings multiples.

Take $16 million (sales) Drexler Technology, for example, a supplier of photoplates and photochemicals for the semiconductor industry. Drexler has a 5-year earnings growth rate of 110%. Its present price/earnings multiple of 21.5 is not extraordinary for a debt-free high-technology growth company.

Debt-free companies

The following companies have no long-term debt, and a return on equity in recent years that has averaged at least 15%. Most of them have been able to finance superior earnings growth internally—a great advantage with the prime at 19%.

Company[1] principal business	Recent price	P/E ratio	5-year EPS growth rate	5-year return on equity	Latest 12 months return on equity	Latest 12 months sales (mil)	Latest 12 months income (mil)	Latest 12 months earnings per share	Book value per share
American Filtrona tobacco filters	13¼	5.0	13%	17.3%	17.2%	$ 92.1	$ 6.1	$2.64	$15.36
American Welding & Mfg metal fabricating	67	8.2	35	15.1	32.7	133.6	10.3	8.16	24.93
n **Amsted Industries** railroad equipment	43	7.0	17	21.3	19.5	910.0	66.4	6.16	31.51
Astrosystems computer equipment	4	9.5	19	17.5	24.4	6.9	1.4	0.42	1.72
a **Automatic Switch** electrical equipment	66	31.1	24	16.9	17.8	142.6	17.4	2.12	11.88
BBDO International advertising	42¼	8.5	15	53.6	59.4	157.2	12.5	4.97	8.36
Bob Evans Farms food processing	25	11.9	30	31.4	26.4	135.9	11.8	2.10	7.95
Bolar Pharmaceutical generic ethical drugs	15½	31.6	53	33.9	31.2	11.0	1.9	0.49	1.57
Brenco railroad equipment	20¼	13.3	23	28.0	26.8	88.1	15.0	1.52	5.68
Brooks Fashion Stores retail	16½	10.6	22	50.2	18.6	141.5	8.9	1.55	8.33
Callon Petroleum oil and gas production	15⅞	72.2	–4	17.8	19.1	8.5	1.4	0.22	1.15
n **Campbell Red Lake** gold mining	49¾	18.3	40	40.7	58.4	83.5	43.6	2.72	4.66
n **CBI Industries** metal fabricating	49½	14.5	8	20.4	18.0	674.7	61.6	3.41	18.97

[1]All companies listed on the over-the-counter market except those labeled (a) American Stock Exchange, (n) New York Stock Exchange, (p) Pacific Stock Exchange and (t) Toronto Stock Exchange.
[2]Other income not shown.

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Statistical Spotlight

Debt-free companies

	Company[1] principal business	Recent price	P/E ratio	5-year EPS growth rate	5-year return on equity	Latest 12 months return on equity	Latest 12 months sales (mil)	Latest 12 months income (mil)	Latest 12 months earnings per share	Book value per share
	Chemed specialty chemicals	39½	13.2	13%	19.9%	18.0%	$ 365.6	$ 29.3	$3.00	$16.70
	Comserv computer services and software	14½	18.8	50	16.6	31.0	9.6	0.8	0.77	2.48
t	**Corp Falconbridge Copper** copper and metal mining	11⅞	4.1	128	23.4	41.9	124.9	38.0	2.93	7.00
a	**AT Cross** writing instruments	35¾	9.8	24	34.9	27.3	102.1	14.8	3.64	13.34
a	**Day Mines** silver, gold and lead mining	19	8.0	153	26.3	36.7	36.4	10.3	2.37	6.46
n	**Dome Mines** gold mining	79	14.6	47	30.9	34.1	154.1	94.5	5.41	15.87
	Drexler Technology supplies for semicond inds	19¾	21.5	110	24.3	22.8	15.6	1.4	0.92	4.03
n	**Dun & Bradstreet** publishing	56¾	15.4	17	32.9	60.8	1,176.1	102.7	3.68	6.05
a	**Evans-Aristocrat Industries** measuring tapes	12¾	7.9	24	23.3	21.3	22.7	3.0	1.62	7.61
p	**Exeter Oil** oil	27½	35.7	14	16.1	45.3	3.4	1.3	0.77	1.70
n	**Family Dollar Stores** retail	15⅝	7.5	18	26.6	22.1	169.8	8.5	2.08	9.40
	Frost & Sullivan publishing	3½	10.0	47	20.5	28.5	7.1	0.5	0.35	1.23
a	**General Employment Enterprises** personnel placement services	6⅜	7.0	123	31.0	41.7	16.3	1.2	0.91	2.18
a	**Giant Yellowknife Mines** gold mining	16⅝	7.5	—	26.6	48.6	29.7	9.5	2.22	4.57
a	**Gorman-Rupp** pump products	29	9.8	13	20.5	16.7	59.2	5.2	2.97	17.80
a	**Gross Telecasting** broadcasting	27⅜	7.7	21	23.2	21.5	11.6	2.8	3.55	16.53
n	**John H Harland** printing	44¼	16.4	20	23.6	22.4	113.7	11.1	2.70	12.06
	Harper Group freight forwarding	38¾	18.3	35	21.2	31.4	157.7	8.7	2.12	6.75
	Hollywood Park horse racing track	29	18.2	9	17.2	16.5	32.6	3.9	1.59	9.63
n	**Illinois Tool Works** fasteners	26	7.2	23	16.6	17.2	401.7	44.3	3.62	21.09
	Interface Mechanisms price scanning sys	17	23.3	82	36.4	34.0	14.6	1.4	0.73	2.15
n	**International Flavors & Fragrances** flavors and fragrances	19⅜	11.2	20	22.5	20.2	448.3	63.2	1.73	8.57
	Kelly Services temporary personnel	36	10.4	34	27.0	24.0	409.7	15.2	3.45	14.38
	Lawson Products fasteners	28¼	12.6	15	27.3	19.0	91.1	7.5	2.25	11.83
	Liberty Homes mobile homes	9¼	9.0	115	18.8	16.8	96.8	4.7	1.03	6.13
a	**Logicon** computer-controlled automation	29¼	12.9	18	18.1	16.6	55.3	2.2	2.27	13.68
n	**Longs Drug Stores** drug stores	36⅞	13.6	15	23.6	18.6	856.2	28.6	2.71	14.57
	MacDermid metal finishing	21	8.9	24	21.0	17.9	60.3	4.8	2.36	13.19
	Manitowoc construction equipment	21½	9.1	6	26.8	18.9	269.2	25.1	2.35	12.45
n	**Maytag** appliances	25½	9.6	8	27.6	20.6	349.2	35.5	2.67	12.98

[1]All companies listed on the over-the-counter market except those labeled (a) American Stock Exchange, (n) New York Stock Exchange, (p) Pacific Stock Exchange and (t) Toronto Stock Exchange.
[2]Other income not shown.

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	Company[1] principal business	Recent price	P/E ratio	5-year EPS growth rate	5-year return on equity	Latest 12 months return on equity	Latest 12 months sales (mil)	Latest 12 months income (mil)	Latest 12 months earnings per share	Book value per share
n	**Miller-Wohl** retail	22⅝	7.8	25%	46.3%	24.6%	$ 194.0	$ 19.0	$2.90	$11.80
	Moore Products precision instruments	28	11.2	18	19.1	16.1	57.1	5.1	2.49	15.45
	Neutrogena toiletries	19	20.0	19	26.4	19.3	29.4	2.0	0.95	4.91
n	**Oakite Products** chemicals	17½	7.6	8	17.9	16.8	65.5	4.1	2.29	13.62
a	**O'Sullivan** footwear supplies	12⅝	5.8	20	27.7	19.7	60.8	4.1	2.18	11.08
	Page Airways airplane sales and services	25	5.7	31	19.2	20.5	104.0	5.2	4.40	21.43
a	**Park Chemical** specialty chemicals	15⅜	6.7	13	20.2	15.0	15.3	0.8	2.28	15.24
	PBA freight forwarding	16½	19.0	24	39.2	18.7	90.9	1.2	0.87	4.65
a	**Penn Engineering & Mfg** fasteners	30¾	10.6	34	23.7	22.4	29.1	5.0	2.90	12.92
n	**Petrie Stores** retail	28	8.7	12	30.9	21.5	464.8	44.5	3.22	15.01
	Pinkerton's industrial services	45	9.0	13	20.5	26.5	279.9	11.7	5.01	18.93
	Research Inc process control instr and sys	12½	11.8	20	20.2	21.0	21.3	1.7	1.06	5.04
	Roadway Express trucking	41½	11.7	14	24.0	22.3	1,153.5	69.4	3.54	15.87
	SafeCard Services credit-card loss svs	17	14.5	95	42.4	27.0	16.1	3.1	1.17	4.34
	St Jude Medical health care products	24½	64.5	—	17.0	24.4	12.1	1.5	0.38	1.56
n	**Schering-Plough** ethical drugs	37	8.3	12	25.1	21.9	1,740.4	239.3	4.45	20.34
	Servicemaster Industries health care services	35¼	24.3	28	30.9	32.4	415.9	13.9	1.45	4.47
a	**SGL Industries** industrial products and services	13½	7.5	14	18.6	16.1	50.7	2.6	1.81	11.23
p	**Silver Dollar Mining** silver, antimony, copper mining	11⅜	20.0	41	27.0	18.9	2.1	1.1	0.57	3.01
n	**LS Starrett** measuring tools	24	6.9	21	17.5	21.1	118.2	13.6	3.49	16.57
	Sturm, Ruger & Co firearms	25½	5.3	11	24.1	16.3	77.4	8.0	4.81	29.51
a	**Summit Energy** oil and gas exploration and dev	21¼	29.1	15	20.3	21.1	6.1	2.1	0.73	3.46
	Tampax personal care products	30¼	9.4	4	30.2	24.1	202.9	36.3	3.22	13.35
	Tennant industrial floor maintenance equip	32½	9.3	18	22.7	21.4	100.1	9.5	3.51	16.41
	Tri-Chem hobby products	7⅞	5.9	–7	27.3	15.7	28.8	2.1	1.33	8.45
	Unimed ethical drugs	13⅞	49.6	47	17.4	27.2	0.7[2]	0.7	0.28	1.03
t	**United Keno Hill Mines** silver and lead mining	28	4.5	63	35.6	53.5	44.8	15.4	6.24	11.67
	WD-40 lubricants	30	12.9	22	68.1	47.0	38.3	5.8	2.33	4.96
n	**Weis Markets** grocery stores	33⅛	9.1	17	21.5	19.5	684.8	33.1	3.63	18.60
t	**Western Mines** metal mining; oil and gas prod	18	8.4	119	17.1	41.4	45.0	17.0	2.14	5.17
	Wham-O Manufacturing toys	8¼	4.1	22	15.6	15.8	26.6	1.5	2.01	12.70
	Wiser Oil oil and gas	73½	12.2	15	23.0	25.5	53.6	18.2	6.02	23.64
n	**Woods Petroleum** oil and gas exploration and prod	30	16.7	8	34.3	26.5	61.9	21.2	1.80	6.80

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[2]Other income not shown.

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